Message Text

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COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 OMB-01 PM-05 OES-07 SP-02 SS-15
STR-07 TRSE-00 ACDA-12 NSCE-00 SSO-00 ICAE-00
INRE-00 DOTE-00 AF-10 ARA-10 EA-10 NEA-11 /153 W
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O 292150Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 7919
INFO AMCONSUL MONTREAL
AMCONSUL CALGARY POUCH
AMCONSUL VANCOUVER POUCH
AMCONSUL HALIFAX POUCH

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 03301

PASS WHITE HOUSE, VICE PRESIDENT'S OFFICE FOR DENNIS CLIFT;
DOE/IA FOR JOHN TREAT

E.O. 11652: GDS
TAGS: ENRG, ETRD, CA
SUBJECT: SUMMARY OF TESTIMONY AT CANADIAN NATIONAL ENERGY BOARD (NEB) OIL SUPPLY, REQUIREMENTS AND TRANSPORTATION HEARINGS

REF: OTTAWA 424

1. SUMMARY. DOE AND EMBASSY OFFICIALS MET JUNE 26 WITH NEB STAFF TO DISCUSS TESTIMONY AT JUST-CONCLUDED OIL SUPPLY AND REQUIREMENTS HEARINGS. NEB OFFICIALS SAID THAT THERE WAS SERIOUS DISAGREEMENT BETWEEN MAJOR PETROLEUM PRODUCERS' FORECASTS OF CONVENTIONAL CRUDE SUPPLIES, NON-CONVENTIONAL CRUDE SUPPLIES AND DOMESTIC DEMAND. DIVERGENCE OF FORE-CASTS CONCERNING SUPPLY-DEMAND BALANCE FOR SYNTHETIC CRUDE (FROM TAR SANDS) AND HEAVY OIL WERE PARTICULARLY SHARP.
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ONLY THREAD OF UNANIMITY IN MAJORS' TESTIMONY WAS THEIR CONCLUSION THAT CANADA NEEDS NO NEW ADDITIONAL TRANSPORT FACILITIES, INCLUDING AN OIL PORT, FOR FORESEEABLE FUTURE. TESTIMONY SEEMS TO SUPPORT DOE REQUEST THAT LIGHT CRUDE OIL EXPORTS BE MAINTAINED AT PRESENT 55 MBD LEVEL FOR YEAR OR TWO RATHER THAN BE REDUCED TO ZERO BY END OF 1980. HEAVY CRUDE EXPORTS WILL PROBABLY BE REDUCED SOMEWHAT,

DEPENDING ON CANADIAN ASPHALT DEMAND FLUCTUATIONS. NEB STAFF ESTIMATES REPORT WILL BE PUBLISHED BY OCTOBER 1978. IN VIEW OF WIDE DIVERGENCE OF TESTIMONY, NEB STAFF EXPECTS CONSIDERABLE DIFFICULTY IN DEVELOPING AN ACCURATE, CREDIBLE PICTURE OF CANADA'S FUTURE OIL SUPPLY AND REQUIREMENTS. END SUMMARY.

2. HEARINGS BEGAN MAY 24 IN CALGARY AND CONCLUDED JUNE 22 IN OTTAWA. SALIENT FEATURE OF TESTIMONY, WHICH INCLUDED 80 SUBMISSIONS FROM EIGHT PROVINCES, ALL MAJOR OIL COMPANIES, GAS AND DISTRIBUTION COMPANIES AND PUBLIC INTEREST GROUPS, WAS WIDE DISPARITY IN FORECASTS OF CANADA'S FUTURE OIL AND TRANSPORTATION NEEDS. NEB IS CURRENTLY ANALYZING TESTIMONY AND WILL ISSUE ITS REPORT BY OCTOBER 1978. THE FOLLOWING ARE SIGNIFICANT HIGHLIGHTS:

3. CONVENTIONAL CRUDE SUPPLY:

THERE WAS NO AGREEMENT AMONG MAJOR PETROLEUM PRODUCERS ON CONVENTIONAL CRUDE SUPPLIES. ESTIMATES ON RECENT WEST PEMBINA FINDS IN ALBERTA RANGE FROM 200 MM BBLS. TO 1.5 BILLION BBLS., BUT NONE OF THE MAJORS WOULD PROVIDE SUBSTANTIATING DATA. PAN ARCTIC, 40-PERCENT GOVERNMENT-OWNED OIL CONSORTIUM EXPLORING HIGH ARCTIC ISLANDS, EXPECTS SIGNIFICANT FIND THIS SUMMER DESPITE THREE PREVIOUS DRY HOLES. NEB IS LESS OPTIMISTIC.

4. NON-CONVENTIONAL CRUDE SUPPLY:

LACK OF RESERVOIR DATA AND UNPROVEN TECHNOLOGY MAKE TIMING AND DEVELOPMENT COSTS A MAJOR VARIABLE IN FUTURE SYNTHETIC CRUDE SUPPLY AVAILABILITY. WHILE COLD LAKE 140 MBD SYNTHETIC CRUDE PLANT IS SCHEDULED TO COME ON STREAM IN 1985, NEB FEELS THAT LACK OF RESERVOIR DATA ON WHICH TO DEVELOP ROYALTY STRUCTURE, ALONG WITH TECHNICAL PROBLEMS SUCH AS WATER AND RESIDUAL FUEL OIL DISPOSAL ASSOCIATED WITH PRODUCTION AND REFINING COULD DELAY SYNTHETIC CRUDE PROJECTS BY AT LEAST SEVERAL YEARS. IN ADDITION, THERE WAS LACK OF AGREEMENT BY MAJORS OVER WHETHER ADEQUATE RESERVES EXIST TO SUPPORT ADDITIONAL HEAVY CRUDE UPGRADING FACILITIES.

5. REFINED PRODUCT SUPPLY:

ALL OF THE MAJORS FORECAST PROBABILITY OF SHORT-TERM RESIDUAL FUEL OIL SURPLUS, EXCEPT SHELL, WHICH, ALONG WITH GOVERNMENT OF ONTARIO, FORECASTS A DEFICIT. FURTHERMORE, NONE OF THE MAJORS WOULD PREDICT EXTENT OF SURPLUS. GAS COMPANIES INDICATED THAT IF THERE WERE SHORT-TERM RESIDUAL

FUEL SURPLUS IT WOULD DISAPPEAR AFTER 1980 DUE TO GROWTH IN DEMAND IN EASTERN PROVINCES. REGARDING EXPORT OF ANY RESIDUAL FUEL OIL SURPLUS, MAJORS INDICATED THAT THEY CANNOT COMPETE WITH CARIBBEAN REFINERIES IN U.S. EAST COAST MARKET, BUT THEY WILL BE ABLE TO COMPETE IN MICHIGAN.

6. DEMAND:

DEMAND FORECASTS FURTHER CONFUSE DEMAND/SUPPLY BALANCE PICTURE. THERE WAS AGREEMENT AMONG MAJORS THAT DEMAND FOR LIGHT PRODUCTS WILL BE LESS THAN CANADA'S RESERVES AND REFINING CAPACITY FOR SHORT-TERM. THERE WAS GREAT DIVER-GENCE IN VIEW AMONG MAJORS OVER DEMAND FOR HEAVY OIL, WITH

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IMPERIAL FORECASTING THAT IT IS INCREASING RAPIDLY, WHILE OTHER MAJORS INDICATED DEMAND GROWTH WOULD BE SLOW, BUT STEADY. ELECTRICITY DEMAND IS EXPECTED TO INCREASE SHARPLY DUE TO INCREASING USE OF HEAT PUMPS. TOTAL ENERGY DEMAND WAS PREDICTED BY IMPERIAL TO INCREASE BY 10 PERCENT BY 1980 AND 30 PERCENT BY 1985 OVER 1977 NEB FORECAST. HOWEVER, OTHER MAJORS PREDICT SLIGHT (10 PERCENT DECLINE BY 1985) OVER 1977 NEB FORECAST DUE TO SLOWER RATE OF GNP GROWTH, FUEL SUBSTITUTION AND CONSERVATION.

7. TRANSPORTATION:

ALL MAJORS INDICATED THERE WAS NO NEED FOR ADDITIONAL TRANSPORTATION FACILITIES, INCLUDING AN OIL PORT, FOR FORESEEABLE FUTURE. NEW BRUNSWICK AND NOVA SCOTIA BOTH FAVOR AN EAST COAST OIL PORT BASED IN THEIR RESPECTIVE PROVINCES.

8. CONCLUSIONS AND COMMENT:
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DUE TO CONFLICTING TESTIMONY NEB WILL PROBABLY TAKE MIDDLE PATH IN DEVELOPING ITS 1978 REPORT. KITIMAT APPEARS TO RECEIVE FURTHER BLOW FROM HEARINGS AND SPONSORS MAY CHOOSE TO WITHDRAW THEIR APPLICATION PENDING BEFORE NEB. POSITION TAKEN BY MAJORS ON ADDITIONAL IMPORT FACILITY SEEMS, ON FACE VALUE, TO CONFLICT WITH IMPLICATIONS OF PESSIMISTIC FORECASTS FOR NON-CONVENTIONAL OIL SUPPLY/DEMAND BALANCE. WE PRESUME THAT BASIS FOR THEIR POSITION IS THAT THERE PROBABLY IS ENOUGH ADDITIONAL OIL FROM CONVENTIONAL SOURCES TO POSTPONE IMPORT PROBLEM BEYOND COMPANIES' FORECASTING CAPABILITY. THEY, THEREFORE, HAVE ELECTED PUBLICLY TO IGNORE THE ISSUE FOR THE NEAR-TO-MEDIUM TERM. TESTIMONY TENDS TO SUPPORT DOE REQUEST (O'LEARY-STABBACK LETTER, JUNE 20) THAT LIGHT CRUDE OIL EXPORTS BE MAINTAINED AT THEIR PRESENT LEVEL OF 55 MBD FOR YEAR OR TWO RATHER THAN BE REDUCED TO ZERO BY END OF 1980. HEAVY CRUDE EXPORTS WILL PROBABLY BE REDUCED ON NEB SCHEDULE FROM PRESENT LEVEL OF 110 MBD TO 99 MBD IN 1979 AND 88 MBD IN 1980 WITH SOME EXTRA VOLUMES POSSIBLY AVAILABLE FOR EXPORT, DEPENDING ON CANADIAN ASPHALT DEMAND FLUCTUATIONS. EXPANSION OF NATURAL GAS PIPELINE FACILITIES BEYOND MONTREAL WOULD BE UNECONOMICAL FOR FORESEEABLE FUTURE AND WOULD ONLY COMPOUND PROBLEM OF SURPLUS REFINING CAPACITY IN MARITIME PROVINCES. NEB STAFF TOLD USG REPS THAT IN VIEW OF SERIOUS DIVERGENCE IN TESTIMONY THEY EXPECT TO HAVE SERIOUS DIFFICULTY IN DEVELOPING AN ACCURATE, CREDIBLE PICTURE OF CANADA'S FUTURE OIL SUPPLY AND REQUIREMENTS. ENDERS

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